

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Illinois Gas Company	:	
	:	09-0540
Reconciliation of revenues	:	
collected under gas adjustment	:	
charges with actual costs	:	
prudently incurred.	:	

ORDER

By the Commission:

On November 12, 2009, the Illinois Commerce Commission ("Commission") entered an "Order Commencing PGA Reconciliation Proceedings," which directed Illinois Gas Company ("IGC"), among others, to present evidence depicting the reconciliation of purchased gas adjustment ("PGA") revenues with the actual cost of such gas supplies obtained through purchases demonstrated by IGC to be prudent during the 12 months ending December 31, 2009 ("Reconciliation Period"). Pursuant to due notice, hearings were held in this matter before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield, Illinois on September 2, 2010 and October 7, 2010. Counsel entered an appearance on behalf of IGC. Richard Bridal, an accountant in the Accounting Department of the Financial Analysis Division of the Commission's Bureau of Public Utilities, and Mark Maple, a senior gas engineer in the Engineering Department of the Energy Division of the Bureau of Public Utilities, entered appearances on behalf of Commission Staff ("Staff"). Lori Uhl, IGC's comptroller and assistant treasurer testified on behalf of IGC. Mr. Bridal and Mr. Maple testified on behalf of Staff. At the conclusion of the latter hearing, the record was marked "Heard and Taken."

In accordance with Section 9-220 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq., the Commission may authorize an increase or decrease in rates and charges based upon changes in the cost of purchased gas through the application of a PGA clause. Section 9-220(a) requires the Commission to initiate annual public hearings "to determine whether the clauses reflect actual costs of gas purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual cost of gas prudently purchased." The burden of proof is on the utility to establish the prudence of its applicable costs.

For gas purchases, the provisions of Section 9-220 are implemented in 83 Ill. Adm. Code 525, "Uniform Purchased Gas Adjustment Clause," ("Part 525"). Section

525.40 of Part 525 identifies gas costs which are recoverable through a PGA. Adjustments to gas costs through the Adjustment Factor are addressed in Section 525.50. The gas charge formula is contained in Section 525.60. Annual reconciliation procedures are described in Section 525.70.

IGC's offices are located in Olney, Illinois. IGC provides gas services to approximately 9,722 customers in the communities of Lawrenceville, Bridgeport, Sumner, Pinkstaff, Birds, and Russellville in Lawrence County, Illinois; Olney, Noble, Parkersburg, Calhoun, Claremont, and Dundas in Richland County, Illinois; and West Liberty, Saint Marie, and Willow Hill in Jasper County, Illinois. Gas supplies for IGC are transported into the area by Texas Gas Transmission, LLC ("TGT"). Ms. Uhl testifies that the nearest alternative pipeline belongs to Trunkline Gas Company ("Trunkline"), which is approximately 50 miles west of IGC's primary gate station. In her opinion, the cost of installing necessary transmission lines to Trunkline can not be justified as a cost to be recovered from rate payers.

Ms. Uhl testifies that under its contracts with TGT, IGC is allotted, during the winter season, 2,200 million British thermal units ("MMBtu") per day under a Short-Term Firm Transportation ("STF") Agreement and 14,950 MMBtu per day under a No Notice Service ("NNS") Agreement, for a total of 17,150 MMBtu per day. IGC's 2009 peak day was 12,603 MMBtu on January 15, 2009. With respect to gas purchases for the Reconciliation Period, Ms. Uhl testifies that all gas purchases since November, 2006, were made by IGC through its agent BP Canada Energy Marketing Corporation. The agent was selected by competitive bidding.

With regard to IGC's reconciliation of revenues collected under its PGA with costs actually incurred, a schedule containing this information is identified as Statement 1 of Exhibit 3, which is attached to IGC Exhibit A. According to Statement 1, and as shown in the Appendix to this Order, IGC had PGA revenues of \$7,284,179 in 2009 compared to recoverable gas costs of \$7,479,320. After reflecting certain other adjustments in lines 7, 8, and 9, the under recovery of costs for calendar year 2009 is \$191,469. After adding the balance to be refunded from prior periods of \$319,783, the over recovery balance at December 31, 2009 is \$128,314. Upon reflecting the latter amount as a Factor A adjustment, the unamortized balance at December 31, 2009, and requested Factor O, is zero dollars.

It is noted that IGC's Uniform PGA tariff unbundles the PGA rate into the following components: Winter/Season Demand, Summer/Season Demand, and the Commodity Components. The PGA rate billed is based on different combinations of components applicable to each of two classes of gas usage customers. Firm Usage of system supply is billed the Winter/Season Demand, Summer/Season Demand, and Commodity Components. Interruptible Winter Usage of system supply is billed the Winter/Season Demand, the Summer/Season Demand, and Commodity Components, but receives credit for the Winter/Season Demand Component. According to Ms. Uhl, Interruptible customers are not charged the Winter/Season Demand Component because they are interruptible during the Winter/Season and Firm during the

Summer/Season, allowing the contractual pipeline Winter/Season or Peak Demand to be lower than it would otherwise be.

Mr. Bridal reviewed IGC's filing and responses to extensive data requests concerning the revenues collected under the PGA and the costs recoverable under the clause. He finds no reason to object to the reconciliation performed by IGC and recommends the acceptance of IGC's reconciliation of revenues collected under the PGA with actual costs as shown on Statement 1 of Exhibit 3. He further testifies that the reconciliation in this proceeding does not require an Ordered Reconciliation Factor (Factor O).

Mr. Maple reviewed IGC's testimony and its responses to Staff data requests concerning the prudence of gas purchases. Mr. Maple testifies that using the Commission's criteria for prudence, he found no reason to dispute IGC's assertion that all gas supply purchases were prudently incurred during the reconciliation period. Mr. Maple, however, recommends that in the coming years, IGC reevaluate its system's needs and determine the proper volume of STF and NNS capacity it needs to retain to provide reliable peak day service. If the evaluation of its system shows it requires less TGT capacity than its current levels, Mr. Maple suggests that IGC give timely notice to TGT that it intends to change the terms of the contract before they are renewed. IGC accepts Mr. Maple's capacity recommendation.

The evidence shows that during the Reconciliation Period, IGC acted prudently in its procurement of natural gas supply. The evidence presented by the parties further shows that the cost of purchased gas has been reconciled satisfactorily with the revenues received for such gas during calendar year 2009. The Commission notes that a review of the 2008 PGA reconciliation for IGC in Docket No. 08-0626 shows that following the reconciliation, no ordered adjustment Factor "O" was required, reflecting no unamortized balance. Essentially, Line 13 of the Appendix attached to the Order in Docket No. 08-0626 serves as the starting point for Line 1 for the Appendix attached hereto. Similarly, Line 14 of the Appendix attached to the Order in Docket No. 08-0626 is replicated on Line 3 of the attachment hereto and Line 12 of the Appendix in Docket No. 08-0626 is replicated on Line 2 of the Appendix to this Order. Lines 4 through 11 of the Appendix attached to this Order reflect activity during 2009. There have been no findings of imprudence, the automatic adjustment clause Factor A has served its purpose during the last several years, and, again, there is no ordered reconciliation through Factor O as shown on Line 14 of the Appendix attached hereto. The Commission concludes that the 2009 PGA reconciliation, as reflected in the Appendix hereto, is reasonable and should be approved.

The Commission, having considered the entire record, is of the opinion and finds that:

- (1) IGC is a corporation engaged in the distribution of natural gas to the public in portions of the State of Illinois and, as such, is a public utility within the meaning of the Act;

- (2) the Commission has jurisdiction over IGC and of the subject matter of this proceeding;
- (3) the statements of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) the evidence shows that during the Reconciliation Period, IGC acted prudently in its purchases of natural gas;
- (5) the cost of purchased gas has been reconciled satisfactorily with the revenues received for such gas during calendar year 2009, as shown in the Appendix hereto; and
- (6) IGC experienced an under-recovery of costs for calendar year 2009 of \$191,469 and an over-recovery balance at December 31, 2009 of \$128,314, amortized to Schedule 1 as Factor A Adjustments, resulting in a reconciliation factor of zero dollars; an Ordered Reconciliation Factor (Factor O) is not required.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that Illinois Gas Company's reconciliation of the revenues collected under its PGA clause for calendar year 2009 with the actual costs prudently incurred for the purchase of gas supply as shown in the Appendix hereto, is approved.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Illinois Administrative Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 15th day of December, 2010.

(SIGNED) MANUEL FLORES

Acting Chairman